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Financial reports and audited financial statements, and reports of the Board of Auditors

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Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with financial regulation 12.11, the Advisory Committee on Administrative and Budgetary Questions received the reports of the Board of Auditors on the financial statements of the following entities to the General Assembly for the period ended 31 December 1999: the United Nations,[1] the International Trade Centre UNCTAD/WTO (ITC),[2] the United Nations University (UNU),[3] the United Nations Development Programme (UNDP),[4] the United Nations Children's Fund (UNICEF),[5] the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA),[6] the Fund of the United Nations Environment Programme (UNEP),[7] the United Nations Population Fund (UNFPA),[8] the United Nations Habitat and Human Settlements Foundation,[9] the Fund of the United Nations International Drug Control Programme (UNDCP),[10] the United Nations Office for Project Services (UNOPS),[11] the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994[12] and the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991.[13] In addition, the Advisory Committee had before it the Board's reports on the accounts for the year ended 1999 on the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR),[14] and on the United Nations Institute for Training and Research (UNITAR).[15] The Committee's comments and observations on the "Audited biennial accounts (1998-1999)" of the World Food Programme (WFP) were communicated to the Executive Board of the Programme through its Executive Director on 6 October 2000. The report of the Board of Auditors on financial statements and accounts of the United Nations peacekeeping operations[16] will be considered by the Advisory Committee at its session in February and March 2001.

2. The Advisory Committee's observations and comments on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund for the financial period ended 31 December 1999 will be submitted separately to the General Assembly at its fifty-fifth session in a report that will include the Advisory Committee's recommendations on the report of the United Nations Joint Staff Pension Board.

3. The Advisory Committee had an advance copy of the concise summary of the principal findings,

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conclusions and recommendations of common interest classified by audit area of the Board of Auditors (A/55/364). The Committee also took up the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors (A/55/80 and Add.1) in respect of the financial period ended 31 December 1997. In addition, the Committee had before it the reports of the Secretary-General on measures taken or to be taken to implement the recommendations of the Board of Auditors on the accounts of the United Nations (A/55/380) and the United Nations funds and programmes (A/55/380/Add.1) for the financial period ended 31 December 1999.

4. During its consideration of these reports, the Advisory Committee met with the Audit Operations Committee of the Board of Auditors, including the newly appointed member from South Africa, from 12 to 15 September 2000. The Committee was informed that the process of redistributing functions formerly performed by the member of the Board from Ghana was accomplished smoothly. **The Committee recommends that, in the future, agreement be sought from a departing member of the Board to be present when the Committee conducts meetings on the Board's reports that had been prepared by the representative before the end of his/her term.**

5. The Advisory Committee notes that the Board of Auditors has submitted, for the first time, separate audit reports on the International Criminal Tribunals for Rwanda and the Former Yugoslavia. This is done in accordance with General Assembly resolutions 53/212 and 53/213 following the recommendation of the Advisory Committee in its reports A/53/651 and A/53/659. The Committee notes that the items examined in the audit reports were also covered by the expert group; the Committee will follow up on this in accordance with the recommendations contained in the Committee's report (A/54/874), including issues covering the usage of the courtrooms and control over defence costs.

6. The Committee had commented in the past on delays in the publication of the Board's reports (see A/53/513, para. 12). The Committee points out once more that the published reports of the Board were not ready by the start of the fifty-fifth regular session of the General Assembly. The Advisory Committee conducted its review of the Board's reports on the basis of advance texts in English only. Moreover, the published financial statements were not available. **The Committee holds the view that reports of the Board and the related report of the Committee should be published in all official languages early in the regular session of the General Assembly. Reports of the Secretary-General on implementation should be submitted in time for the Advisory Committee to take them into account when it considers reports of the Board of Auditors. The timely submission of all documentation concerning reports of the Board of Auditors will also allow the Advisory Committee to exchange views with representatives of the audited administration before it submits its final comments and recommendations to the General Assembly.**

7. **The Advisory Committee commends the Board for the quality of the reports and notes that the Board took into account the previous comments and observations of the Committee with regard to the format of the Board's reports.**

8. The Committee notes that some progress has been made in implementing recommendations made by the Board in its previous reports. Of the 167 recommendations made by the Board, 115 (69 per cent) were fully implemented, 42 (25 per cent) are in progress and only 10 (6 per cent) are yet to be implemented. The auditors informed the Committee that, although it was not always possible to verify all the statements of the administrations, the monitoring and reporting process was manageable. **The Committee welcomes this view but it nevertheless requests that all concerned should monitor the process in terms of its efficiency and capacity to produce clear and concise reports on time.**

9. The Advisory Committee notes that the Board has qualified its opinion on the financial statements of the following four entities: UNDP, UNFPA, UNDCP and UNU. For three of these, UNDP, UNFPA and UNDCP, the Board restricted the scope of its opinion because it was unable to obtain sufficient audit evidence, in the form of audit reports from Governments and non-governmental organizations, that funds advanced to them for national execution projects had been expended for the purposes intended. For UNDP, the Board additionally restricted the scope of its audit opinion because of uncertainty over unidentified amounts totalling $11.1 million arising from bank reconciliation. In the case of UNU, the Board's audit opinion was qualified because the University had not made a provision against long-outstanding unpaid

contributions, some $10 million of which had been outstanding for more than five years.

10. **The Advisory Committee holds the view that the administrations concerned should no longer be allowed to believe that qualified audit opinions are a normal feature of the audit function. Matters that led to a qualified audit opinion should be regarded as very serious issues in the financial health of the audited United Nations entity. These matters warrant immediate appropriate attention and remedy on a priority basis. Accordingly, the Advisory Committee recommends that the General Assembly defer action on the financial statements of UNDP, UNDCP and UNFPA for the period ended 31 December 1999, pending certification by the Board that the matter has been resolved or that satisfactory progress is being made towards removing the reasons for the qualified opinion (see paragraphs 25, 29 and 35 below). With regard to UNU, the Committee requests that the administration implement without further delay the Board's recommendation, which was previously approved by the General Assembly, that the financial statements for the University should include a provision for long-outstanding unpaid pledges in line with the United Nations accounting standards (see para. 38 below).**

11. The issuance of a qualified audit opinion and consequent deferral of approval of the related accounts by the General Assembly may have an important effect on operations. **The Committee is therefore of the opinion that, wherever the Board of Auditors has qualified the financial statements and accounts of an audited administration, the Secretary-General should bring the matter to the attention of the respective governing body to allow that body to take the necessary measures in the context of accountability requirements in circumstances when the head of the administration fails to remedy the situation which gave rise to the qualified audit opinion.**

12. **The Advisory Committee has noted with concern a new trend whereby some administrations are now considering or have considered amending the applicable regulations or rules in order to avoid implementing the recommendations of the Board of Auditors.** To this end, the secretariats often do not provide an adequate analysis to the legislative organs concerned. The relevant details on the issue are contained in paragraph 30 below.

13. **The Committee welcomes the horizontal audit of procurement activities and notes with concern that procurement management in a number of funds and programmes has deteriorated. In view of the level of resources involved, the Committee requests that all affected administrations and, as appropriate, their governing bodies, should address urgently the weaknesses identified in the respective reports of the Board of Auditors. The Committee welcomes the use of the Internet for procurement and recommends that this experience should be shared by all entities of the United Nations system, in particular its funds and programmes. The Committee recommends also that efforts should be made to share the best practices and reforms in procurement that are currently available in some entities of the United Nations system of organizations (see A/55/458).**

14. **The Advisory Committee welcomes the increasing practice of expanding performance audits and encourages the organizations to continue to develop and improve performance measurement standards that could facilitate the task of the audit in assessing programme performance and achievement of objectives and mandates. In this connection, the Committee requests the Board of Auditors to pay particular attention to reported expenditures and their relationship to programme delivery.**

15. With regard to the issue of accountability of implementing partners, whether they are United Nations executing agencies, Governments or NGOs, the Committee recalls its observations on the need to ascertain capacity to implement United Nations projects and provide appropriate remedy (see A/51/533, paras. 23-28 and A/52/518, paras. 6-9). **The Committee notes that weaknesses in accountability, particularly in relation to audit reporting, persist in some funds and programmes and requests that corrective action be pursued as a matter of priority to address the root causes of the weaknesses identified in the latest and previous reports of the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions. This observation is especially relevant to the operations of UNICEF, UNDP and UNFPA.**

16. The Committee takes note of a number of references to write-offs and losses of cash, receivables and property in some of the reports of the Board of Auditors. **The Committee requests that, in the future, the Board should attempt to assess the reasons for such actions.**

United Nations

17. The Board's main recommendations are contained in paragraph 12 of its report.[1] The detailed audit observations are contained in paragraphs 13 to 311 of the Board's report. In the first report of the Secretary-General on the implementation of the recommendations of the Board (A/55/380), paragraphs 4 to 37 are devoted to describing the implementing measures in regard to the main recommendations of the Board; paragraphs 38 to 89 are devoted to describing the implementing measures concerning other recommendations contained in the body of the Board's report, namely in its paragraphs 21, 24, 41, 49, 53, 60, 70, 74, 108, 111, 202, 227, 234, 245, 249, 253, 271, 276, 285, 289, 295, and 298.

18. The Committee notes that the report of the Board of Auditors includes, for the first time, comments, observations and recommendations on the operations of the United Nations Fund for International Partnership (UNFIP). The Committee was informed that observations, comments and recommendations on UNFIP contained in paragraphs 34 to 60 of the audit report would be transmitted to the Foundation by its secretariat. The Committee takes note of several weaknesses concerning project implementation, management and reporting. The Committee points out that these inefficiencies would affect the level of overhead for project implementation. The implementing partners would have to bear additional expenses to the extent that these are not covered by the 5 per cent of programme support charged to the Foundation resources. **The Committee points out, in this connection, that corrective measures identified by UNFIP and referred to in paragraph 46 of the audit report, appear to be rather vague. The Committee therefore takes the view that the problems identified by the Board of Auditors require urgent attention by all concerned.**

19. In response to the Committee's request for a specific examination of practices and procedures of handling arbitration/claims by the United Nations administration, the Board of Auditors had conducted a special audit and the related findings and recommendations are contained in paragraphs 182 to 227 of the Board's report. The Committee notes that the Board of Auditors focused its examination on the following three areas: (a) the extent to which contract negotiation has adequately minimized the Organization's exposure to claims; (b) procedures for selection of arbitrators and outside legal counsel, and their payment, with particular attention to the negotiation of fees, the certification of payments and the line of authority and provision of internal oversight for the same; and (c) the requirement for full budgetary disclosure of fees, awards and settlements. The Committee takes note of the comments of the administration in paragraphs 17 to 31 of the report of the Secretary-General (A/55/380) but stresses the importance of full implementation of the Board's recommendations. **The Committee is awaiting the results of an expanded audit of the issue to make further comments.**

20. **The Committee also requests that the Secretary-General submit to it a progress report on the implementation of the Board's recommendations resulting from the special audit on arbitration in the context of the Committee's review of budgets of peacekeeping operations during February and March 2001.** The Committee will offer, as necessary, more comments in the course of its consideration of the progress report. **The Committee also requests that detailed information on arbitration/claim cases, including the related costs and fees, should be provided to it on a regular basis in the context of the Committee's consideration of budgets of peacekeeping operations for each new budget year.**

21. With regard to paragraph 199 of the Board's report, the Committee was informed that the response of the administration was based on an earlier draft report of the Board of Auditors that had been conveyed to the administration. The administration had overlooked the fact that the Board of Auditors had modified its recommendation contained in the draft report. According to the administration, there is no longer a need to consider amending the Procurement Manual given the final version of the Board's recommendation in paragraph 198 of its report.

United Nations Development Programme

22. **The Advisory Committee is seriously concerned that the Board has once again qualified its opinion on the financial statements of the United Nations Development Programme (UNDP), because the Board was unable to obtain sufficient audit evidence, in the form of audit reports from executing agencies and governments, that funds advanced to them for national execution projects had been expended for the purposes intended.**

23. As indicated in paragraph 18 of its report,[4] the Board noted differences of $64 million between the amounts reported by executing agencies and the amounts recorded by UNDP. Furthermore, as stated in paragraph 21 of the report, UNDP received no audit reports from Governments for expenditure of some $723 million for 1998-1999. This amount reflects an increase of $203 million, compared with a scope of restriction of $520 million for the previous biennium.

24. The Board of Auditors additionally restricted the scope of its opinion because of uncertainty over unidentified amounts totalling $11.1 million arising from bank reconciliation.

25. **The Advisory Committee points out that the Board of Auditors qualified its opinion on the financial statements and accounts of UNDP for the last three bienniums. In view of its comments in paragraph 10 above, the Committee recommends that the General Assembly defer action on the financial statements and accounts of UNDP for the period ended 31 December 1999, pending satisfactory measures by the UNDP administration.**

26. The Advisory Committee notes that UNDP is experiencing a sharp decline in regular resources (see paras. 24 to 27 of the Board's report). The Committee notes what appears to be the result of an increase in instances of poor management of procurement activities and project implementation as detailed in paragraphs 82 to 154 of the Board's report.

27. With regard to the change management initiative launched by UNDP in 1997, the Committee notes from paragraph 50 of the Board's report that the initiative was formally closed in 1999. The cost of the initiative, as reflected in the implementation plan of September 1997, was estimated by UNDP at $18.1 million. This estimate is not complete, however, and, according to the Board, it was unable to determine the full cost of the initiative, as stated in paragraph 65 of the Board's report. The Committee was provided, upon request, with a summary of the costs of the UNDP 2001 initiative totalling $28.1 million, as prepared by the UNDP Office of Budget. The Committee recalls its comments in paragraph 55 of its report dated 19 October 1998 (A/53/513) that the Board's observations in respect of UNDP information systems and the programme of integrated organizational and managerial change (UNDP 2001) "seem to reveal a pattern of widespread and systematic inaccurate identification of needs, poor project design, development, implementation and management. As a consequence, unrealistic and somewhat inaccurate estimates were made, which were often revised as projects were changed in midstream, suspended or even abandoned."

28. The Committee notes from paragraph 50 of the Board's report that, as part of the closing procedure, UNDP commissioned an independent assessment of the UNDP 2001 Initiative which was completed in October 1999 (a copy requested). **The Committee believes that there are lessons to be learned from this experience, in particular from the process of designing and planning the project, estimating its cost, involving the Advisory Committee and the Executive Board in a transparent manner and assigning programme managers with responsibility for administering resources allocated for the project. The Committee cautions that unless such lessons are learned, similar mistakes could be repeated in the future.**

United Nations Population Fund

29. **The Committee notes with serious concern that the Board has once again qualified its opinion on the UNFPA financial statements owing to lack of receipt of audit certificates from Governments and non-governmental executing and implementing agencies for programme expenditure totalling $98.3 million.** This amount reflects an increase of $15.2 million, compared with a scope of restriction of $83.1 million for the biennium 1996-1997. The proportion of nationally executed and NGO-executed expenditure covered by audit reports decreased from 70 per cent in 1996-1997 to 50 per cent in 1998-1999. **The Committee shares the Board's concern with regard to the audit coverage of programme expenditure whereby UNFPA has no direct evidence to support**

half of its 1998-1999 nationally and NGO-executed expenditure. This, in the view of the Committee, is unacceptable. The Committee believes that the high risk inherent in this type of activity warrants sustained and effective monitoring by the Fund administration. There is no evidence that this has been done. The Advisory Committee points out that the Board of Auditors qualified its opinion on the financial statements and accounts of UNFPA for the last three bienniums. Accordingly, the Committee recommends that the General Assembly defer action on the financial statements and accounts of UNFPA for the period ended 31 December 1999, pending satisfactory measures by the administration of the Fund (see para. 10 above).

30. The Committee notes from paragraph 28 of the Board's report[8] that the administration of UNFPA intends to revise the rules governing audit reports of executing agencies' expenditure and to only require audits at least once in the lifetime of a project, rather than annually. Moreover, according to the UNFPA administration, "in line with UNDP practice, the requirement for an annual project audit was changed to require an audit at least once in the lifetime of the project" (A/55/380/Add.1, para. 353). **The Committee strongly disagrees with the administration on its stated intention to amend the rules governing the audit reports of executing agencies. The Committee takes the view that this would make the situation worse as larger expenditures could be incurred without supporting audit reports. The Committee agrees with the Board of Auditors that the current rules should be fully implemented without exception.**

United Nations Children's Fund

31. The observations of the Board of Auditors on the subject of cash assistance to Governments are contained in paragraphs 21 to 27 of the Board's report.[5] The previous observations and recommendations of the Advisory Committee are reflected in its reports dated 19 October 1998 (A/53/513, paras. 60-70) and 6 October 1999 (A/54/441, paras. 9-10). It is noted that the General Assembly, in paragraph 3 of its resolution 54/13 B of 23 December 1999, endorsed the observations and recommendations of the Advisory Committee on the issue. **The Committee reiterates the views expressed in its report dated 6 October 1999 (A/54/441).** In this regard, the annex to the present report contains an extract from that report which is brought to the attention of the Fifth Committee.

32. The Committee notes from paragraph 26 of the Board's report that total unliquidated cash assistance to Governments as at 31 December 1999 was $159.9 million, compared with $111.7 million as at 31 December 1997, an increase of $48.2 million. The Committee also notes from paragraph 23 that the UNICEF Executive Board approved, by its decision 1999/21 of 10 September 1999, an amendment to the Financial Regulations to reflect the revised definition of programme expenditure, which may include, inter alia, cash assistance. **On the basis of the information contained in the Board's report, the decision of the Executive Board and testimony of the members of the Audit Operations Committee, the Advisory Committee shares the uneasiness of the Board of Auditors on this issue.** The Executive Board of UNICEF intends to review the implications of the new definition. The Advisory Committee is of the opinion that, when conducting such a review, the Executive Board should take full account of General Assembly resolution 54/13 B, which endorsed the recommendations of the Advisory Committee.

33. The Committee was provided, upon request, with the guidelines on UNICEF cash assistance to Governments, which provide, inter alia, for various control measures over the mechanism of cash assistance to Governments. For example, the Finance Section in Field Offices must ensure that the authorized counterpart officially acknowledges receipt of cash assistance in an appropriate manner; the recipients of cash assistance are responsible for the financial management of the cash expenditures, including the maintenance of acceptable accounts; the detailed reports on activities for which cash assistance was made should be prepared by Governments and retained in their archives for more than four years. **The Committee trusts that the various control measures with respect to cash assistance to Governments are vigorously adhered to.**

34. The Committee was also provided, upon request, with a copy of the basic cooperation agreement between UNICEF and Governments, which provides, inter alia, that financial statements submitted to UNICEF on the programmes of cooperation are subject to audit in accordance with existing Government rules

and procedures. **The Committee trusts that cash assistance to Governments will be subject to regular audit and reporting both by internal and external audit. The Committee recommends that the Board, in the next audit, ascertain the extent to which the various control, reporting and certification functions are being adequately performed. It is the intention of the Advisory Committee to follow up on this matter in the context of the next report of the Board of Auditors.**

Fund of the United Nations International Drug Control Programme

35. **The Advisory Committee notes with serious concern that the Board of Auditors has once again qualified its opinion on the financial statements and accounts of the programme owing to lack of audit reports for $14.2 million incurred on nationally executed projects during the period 1998-1999. The Committee is also concerned that UNDCP has neither received audit reports covering the $17.9 million incurred through UNDP on nationally executed expenditure in 1996-1997 nor followed up. The Advisory Committee points out that the Board of Auditors qualified its opinion on the financial statements and accounts of UNDCP for the last three bienniums. Accordingly, the Committee recommends that the General Assembly defer action on the financial statements and accounts of UNDCP for the period ended 31 December 1999, pending satisfactory measures by the administration of the Programme (see para. 10 above).**

36. **The Advisory Committee is not satisfied with the administration's response (A/55/380/Add.1, para. 414) to the Board's recommendation in paragraph 11 (c) of its report[10] on the need for UNDCP to follow up, in liaison with UNDP, all audit reports outstanding in respect of the bienniums 1996-1997 and 1998-1999; the Committee requests that the Board's recommendations should be fully implemented by UNDCP.**

United Nations University

37. The Board of Auditors has qualified its opinion on the financial statements and accounts of the University because it had not made a provision in the financial statements against long-outstanding unpaid pledged contributions, some $10 million of which had been outstanding for more than five years (see details in paras. 14 to 16 of the Board's report[3]). **The Committee regrets that the University has not complied with the Board's recommendation on the matter and it notes that there is no information from the administration on the reasons for non-compliance.** The administration indicates (A/55/380/Add.1, para. 46) that UNU will make provision for long-outstanding unpaid pledges for the period ended 31 December 2000.

38. **The Advisory Committee considers that the non-compliance of the administration of the University, regrettable though it is, does not, at this stage, warrant the Committee to recommend deferral of approval of the financial statements and accounts of the University. Accordingly, the Committee recommends that the financial statements and accounts of the University be approved and that the administration should implement the recommendations of the Board (see para. 10 above).**

Voluntary funds administered by the United Nations High Commissioner for Refugees

39. **The Advisory Committee shares the concern of the Board of Auditors about the financial situation of UNHCR.** In this connection, the Committee observed in its report on the UNHCR annual programme budget 2001 "that in recent years there has been a declining trend in contributions from a multilateral source to the UNHCR programme" (A/AC.96/932/Add.1, para. 9).

40. **The Committee commends the administration of UNHCR for measures taken so far to promote accountability of implementing partners and trusts that further measures will be taken to address the findings of the Board on this issue. Furthermore, in view of the resource constraint being experienced by UNHCR, the Committee trusts that greater**

efforts will also be made to plan and implement UNHCR activities more efficiently and exercise greater financial control over agency funds and operations. In this connection, the Committee urges UNHCR to take urgent steps to address the weaknesses and shortcomings identified by the Board in paragraphs 63 to 78 of its report[14] regarding budgetary control, human resources management, programme management and project implementation.

41. **The Committee notes with concern the findings of the Board on the implementation and ultimate abandonment of the MINDER system** (see details in paras. 45 to 59 of the Board's report). The Committee has already commented, in the context of its report on the annual budgets of UNHCR, on what appears to be a lack of full transparency in the reporting on the implementation, cost, performance and delivery of projects on information technology. Most recently, the Committee, in its report on the UNHCR annual programme budget 2001, reiterated its request that UNHCR should present to the Committee, as additional information, comprehensive data on implementation of all information technology projects, including relevant costs (A/AC.96/932/Add.1, para. 18).

United Nations Institute for Training and Research

42. **The Advisory Committee welcomes the Board's audit report on UNITAR, including its management audit covering the appointment and conditions of service of Special Fellows. The Committee shares the concern of the Board expressed in its report[15] that the process of selecting and appointing Special Fellows lacks full transparency (para. 37), the letters of appointment are deficient (para. 42), and the duties of fellows are not clearly set out in their letters of appointment (para. 45) and that there are weaknesses concerning compensation payments and annual and sick leave entitlements (paras. 47 to 54).**

43. **The Committee notes that the number of fellows has increased from 33 in 1997 to 50 in 1999, that is, by 34 per cent, and that the cost during this period has risen from $284,000 to $453,000, or by 59.5 per cent. The average length of fellowship contracts has increased from 7.5 to 8 months during the period from 1997 to 1999. The Committee is concerned that, unless this increase corresponds to an increase in workload resulting from a larger income for the Institute, this might exacerbate the financial situation of UNITAR.**

Notes

[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5* (A/55/5), vol. I, chap. II.

[2] Ibid., A/55/5, vol. III, chap. II.

[3] Ibid., A/55/5, vol. IV, chap. II.

[4] Ibid., *Supplement No. 5A* (A/55/5/Add.1), chap. II.

[5] Ibid., *Supplement No. 5B* (A/55/5/Add.2), chap. II.

[6] Ibid., *Supplement No. 5C* (A/55/5/Add.3), chap. II.

[7] Ibid., *Supplement No. 5F* (A/55/5/Add.6), chap. II.

[8] Ibid., *Supplement No. 5G* (A/55/5/Add.7), chap. II.

[9] Ibid., *Supplement No. 5H* (A/55/5/Add.8), chap. II.

[10] Ibid., *Supplement No. 5I* (A/55/5/Add.9), chap. II.

[11] Ibid., *Supplement No. 5J* (A/55/5/Add.10), chap. II.

[12] Ibid., *Supplement No. 5K* (A/55/5/Add.11), chap. II.

[13] Ibid., *Supplement No. 5L* (A/55/5/Add.12), chap. II.

[14] Ibid., *Supplement No. 5E* (A/55/5/Add.5), chap. II.

[15] Ibid., *Supplement No. 5D* (A/55/5/Add.4), chap. II.

[16] Ibid., *Supplement No. 5* (A/55/5), vol. II, chap. II.

Annex I

Extract from the report of the Advisory Committee on Administrative and Budgetary Questions dated 6 October 1999 (A/54/441) with respect to the United Nations Children's Fund

"9. With respect to the implementation of recommendation 11 (a) as reported by the United Nations Children's Fund (UNICEF) in its response to the recommendations of the Board of Auditors (A/54/140/Add.1, chap. II, sect. D, para. 2), the Advisory Committee notes that the Board intends to follow up on this question (see A/54/159, annex, appendix, para. 27). Further comments by the Committee will be made in the context of its examination of the audit report on UNICEF for 1998-1999. In the meantime, the Committee wishes to point out that the statement made by the UNICEF Administration in paragraph 8 (a) of its response is technically incorrect. According to UNICEF, the payment of funds by UNICEF to Governments is taken as an expenditure because the ownership of the funds is transferred to the Government at the time the payment is made. The implication of accepting this view is far wider than may have been understood by UNICEF Administration, since the statement might be construed as implying that funds transferred to Governments are grants to be used by Governments in the manner of their choosing. The Committee points out that whereas Governments may have custody of funds made available by UNICEF, they do not own the funds, and if funds are not fully spent for the purposes intended by UNICEF, they have to be refunded.

10. Indeed, its own rules require that if such funds are not used for the purpose for which they were transferred or if amounts are not used, then UNICEF must be refunded accordingly (financial circular No. 15 (Rev.1) CF/DFM/1991/10, para. 3). In the opinion of the Advisory Committee, the nature of cash assistance by UNICEF is no different from advances made to implementing partners by UNHCR. For example, in paragraph 75 of its report, the Board indicated that $13.5 million was refunded in 1998 by implementing partners as a result of the closure of projects, and that the closure of projects was delayed for periods ranging from one to five years. The Committee intends to follow up on this question in connection with its examination of the Board's report on UNICEF for 1998-1999."